HOUSING MARKET OUTLOOK
Regina CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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NEW HOME MARKET

Housing starts to moderate, yet remain elevated through 2014

Following an 83 per cent gain to 3,093 units in 2012, total housing starts in the Regina Census Metropolitan Area (CMA) are on pace for a slight moderation this year. While job creation and net migration will continue to support housing demand through 2014, both supporting factors will moderate from the heightened levels experienced in 2012. In addition, elevated listings in Regina's resale market will offer competition to new home builders, attracting some buyers to an existing home to meet their housing needs. At the same time, a heightened volume of

Figure 1

Source: CMHC, CMHC Forecast (f)

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'The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 26, 2013.

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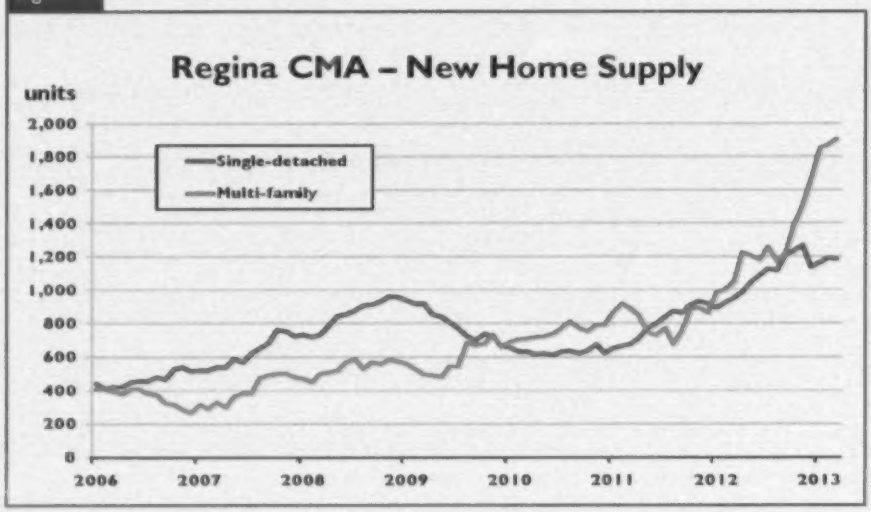
units under construction and rising inventories will slow the pace of new construction. The reduction will be most evident in the multi-family market, which contributed the majority of the increase to total starts last year and where supply levels are highest.

In 2013, local builders are expected to initiate 2,400 units, down 22 per cent from the number of total starts in the previous year. Should supply levels moderate and inventories not escalate toward the end of 2013, a slight improvement to 2,450 starts can be expected next year. While these performances will represent a reduction from the elevated pace in 2012, annual production over the next two years will be among the highest since 1979. So far in 2013, housing starts in the Regina CMA totalled 595 units during the first three months, down 19.6 per cent from the 740 units recorded in the same period last year. Multi-family starts recorded the largest reduction, declining 28 per cent year-over-year, while single-detached starts were down 2.5 per cent year-over-year.

Single-detached starts to ease but remain elevated through 2014

In 2012, strong full-time job creation, positive wage growth, and heightened levels of net migration to the region lifted single-detached construction. Single-detached starts increased by 35 per cent to 1,289 units, the highest level in 33 years. The addition of 2,700 full-time jobs helped support wage growth of 4.6 per cent. Combined with a low unemployment rate, these factors continued to attract heightened levels of net migration to the region.

Figure 2



Source: CMHC

Over the forecast period, a modest reduction in the pace of job growth and net migration to the region will result in a moderation in single-detached starts in 2013 before slightly increasing in 2014. During the first three months of 2013, Regina's builders have broken ground on fewer single-detached units compared to last year. To the end of March, a total of 234 units begun construction, down 2.5 per cent from the 240 units started in the corresponding period of 2012. While single-detached starts have moderated from the previous year, supply levels are considerably higher. The number of units under construction and those in inventory reached 1,183 units in March, 25 per cent higher than the previous year. Rising inventory levels will temper the pace of new construction this year. Nevertheless, at 1,100 units in 2013 and 1,125 units in 2014, single-detached starts will remain elevated by historical standards.

New house price pressures to ease through 2014

In 2012, Statistics Canada's New House Price Index (NHPI), which measures the difference in the price of new homes where the specifications remain the same between two consecutive periods, recorded a 4.4 per cent year-over-year increase for Regina. Thus far in 2013, price pressures have moderated in tandem with added production capacity in the last few years and the reduction in housing starts in 2013. As a result, Regina's NHPI is forecast to expand by 3.1 per cent in 2013, representing the lowest increase since 2002. Given the cost pressures on newly developed lots, the land component of the NHPI will continue to account for the bulk of the gains this year.

While growth in Regina's NHPI was among the highest in Canada last year, the average absorbed price only increased by 0.9 per cent due to compositional factors, as the share of new homes selling above $700,000

declined in 2012 from a year earlier. In 2013, gains in the average absorbed price of new single-detached homes will be aided by a compositional shift to higher price ranges. During the first quarter, the share of new homes selling above $450,000 increased to 45 per cent from 38 per cent in the same period a year prior. Notwithstanding, we expect this trend to slow over the forecast period, constrained by the combination of relatively weaker resale price gains and continued advances in monthly carrying costs. In addition, the conclusion of some major non-residential projects in 2012 will alleviate some of the prices pressures on labour and material costs for the construction industry. As a result, the average absorbed price of single-detached homes will rise modestly by 1.7 per cent to $470,000 in 2013 and by 2.1 per cent to $480,000 next year.

Multi-family starts to decline in 2013, rise slightly next year

Following a record 1,804 units in 2012, multi-family starts, which consist of semi-detached units, rows, and apartments, are on pace to moderate to 1,300 units in 2013 before rising slightly to 1,325 next year. Low apartment vacancy rates, coupled with incentives from multiple levels of government, have fuelled gains in rental construction in recent years. With 247 rental starts to the end of March this year, units designated for the rental market accounted for 68 per cent of all multi-family starts in Regina.

Demand for ownership oriented units will continue to be fed by an expanding population, particularly from homebuyers seeking a lower priced option or different lifestyle from single-detached ownership. As well, first time homebuyers' income tax credits are also supporting multi-family housing demand. Owing to lifestyle advantages for some buyers, apartment and row style condominiums will also remain attractive for Regina's empty-nesters looking to downsize and capitalize on the accumulated equity in their existing homes.

While demand for multi-family housing will remain strong into 2013, the heightened pace of starts in 2012 has fuelled an increase in the overall supply of units. At the end of March, the supply of multi-family units totalled 1,906 units, the highest level on record. The under construction count at 1,863 units was 87 per cent higher than the previous year. This poses the risk of rising inventories that will compete with new projects in the months ahead, thereby restraining housing starts in 2013.

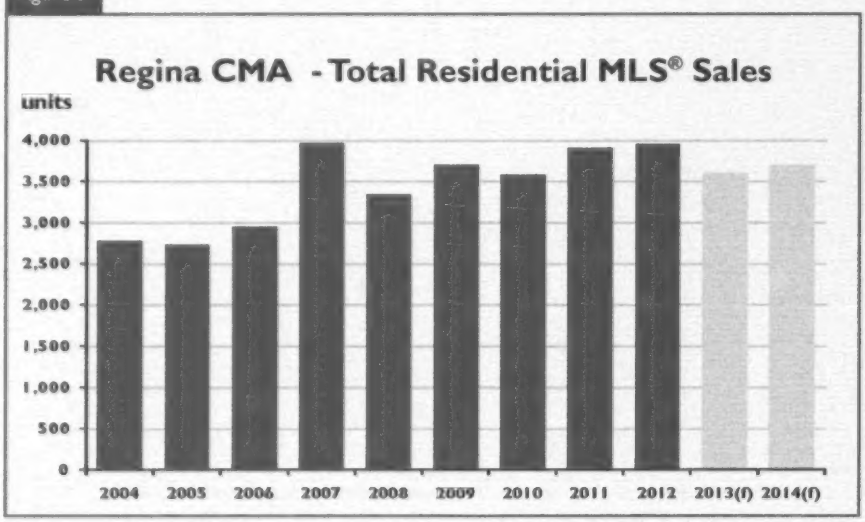
RESALE MARKET

MLS® sales lower in 2013, rising modestly in 2014

Supported by rising wages, heightened net migration and low mortgage rates, sales of existing homes in Regina expanded during the first half of 2012 before trending lower during the second half of the year. During this time, Regina's resale market faced rising competition from the new home market, as well as further price gains and changes in mortgage rules.

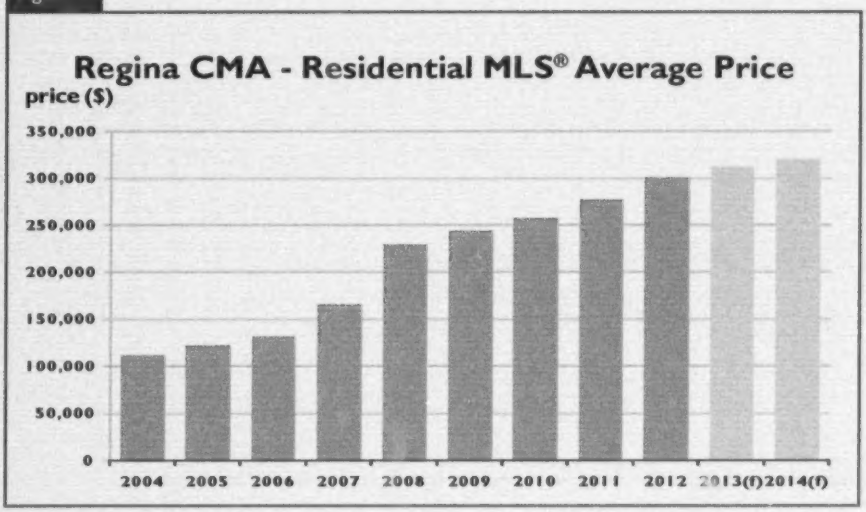
In the first quarter of 2013, the downward trend in resale demand has continued with sales down 25.5 per cent compared to the first three months of last year. While higher prices, moderating job growth and net migration will inhibit demand, anecdotal evidence also suggests that the unusually long winter has had some impact on home purchase decisions in the early months of the year. In 2013, residential transactions

Figure 3



Source: CREA, CMHC Forecast (f)

Figure 4



Source: CREA, CMHC Forecast (f)

are forecast to moderate to 3,600 units from 3,952 MLS® sales achieved a year earlier. Despite the moderation, demand for resale homes will remain elevated by historical standards.

Over the forecast period, continuing public sector incentives in the form of first-time homebuyer income tax credits will motivate some renter households to move to homeownership. Meanwhile, low mortgage rates and price gains will encourage move up buying from existing homeowners taking advantage of equity gains from previous years. In 2014, resale transactions are expected to rise modestly to 3,700 units, buoyed by continued job gains and a modest rise in net migration.

Sales of higher priced homes contribute to rise in average price

Following an 8.5 per cent increase in 2012, the average resale price in Regina is expected to rise 3.6 per cent in 2013, reaching an average of $312,000. This will be followed by a 2.6 per cent gain to $320,000 in 2014. An elevated supply of resale homes relative to demand will ensure that balanced market conditions persist, leading to modest price growth by historical standards. In 2013, active listings are expected to rise as existing owners list their homes to lock-in equity gains and move up in the resale market or purchase a new home. At the end of March, active listings were 16 per cent higher than the previous year, totalling 1,332 units.

Price growth so far this year has largely been supported by a movement of sales to higher price ranges, as homebuyers have taken advantage of low mortgage rates and equity gains from previous years. Recently-constructed higher-priced homes have also impacted the sales mix. The share of sales above $450,000 reached 12.5 per cent during the first quarter of this year, up from a 9.6 per cent share in the same period a year prior. Moving forward, rising carrying costs and the expectation of rising mortgage rates in 2014 will slow the shift towards higher priced homes. On balance, these factors will lead to moderating price growth next year.

RENTAL MARKET

Apartment vacancy rate to remain low

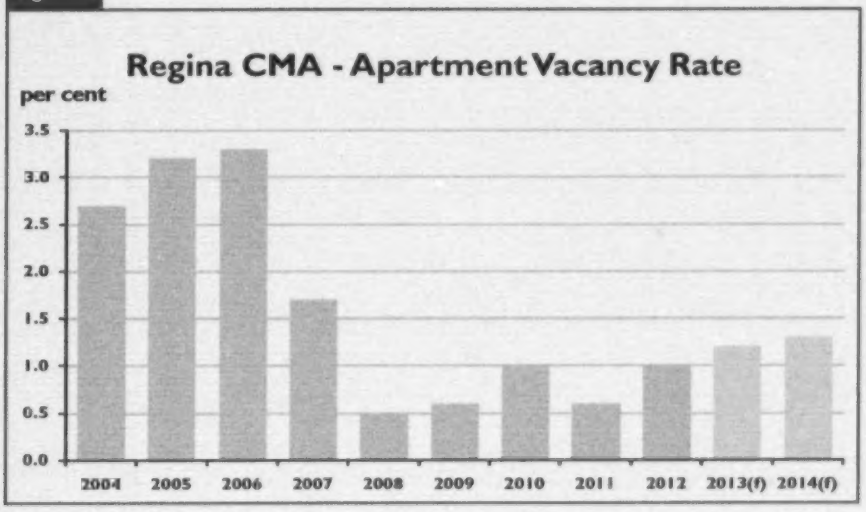
Regina's low unemployment rate, employment opportunities, and expanding wages will draw a healthy inflow of migrants to the region, maintaining low rental apartment vacancy rates over the next two years. After increasing modestly to 1.0 per cent in October 2012, the apartment vacancy rate in Regina is expected to rise slightly to 1.2 per cent in 2013, and 1.3 per cent next year.

Additions to the rental apartment universe via new construction will contribute to the rise in vacancies, as will continued competition from the secondary rental market. A total of 552 units for rental tenure were started in 2012, the highest since the 1970's. The majority of these will be completed during the next two years, offering additional supply to renters. An additional 247 units for rental tenure were started in the first three months of 2013. Supply will be further augmented by condominium apartments being rented. CMHC's October 2012 Rental Market Survey revealed that 25 per cent of all condominiums in Regina were rented in the secondary rental market rather than owner-occupied, up from 23 per cent in the previous year.

Average apartment rents to increase through 2014

Despite the gradual increase in the apartment vacancy rate, Regina's expanding population and continued

Figure 5



Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

job growth will help ensure that demand for rental accommodation remains strong over the forecast period. This will support increases in average apartment rents, as will the addition of newly constructed units which typically rent at a premium compared to existing product. Hence, following a $47 increase in monthly rents in October 2012, the monthly rent for a two-bedroom apartment is forecast to increase $41 to an average of $1,020 in the October 2013 survey. Next year, buoyed by further additions of new rental units at higher price points, the average monthly rent for a two-bedroom apartment is projected to reach $1,050.

ECONOMIC OUTLOOK

Employment expansion to continue through 2014

Following a 2.7 per cent gain in 2012, average employment is expected to increase by 2.5 per cent in 2013. On a year-over-year basis, Regina's labour market strengthened in the opening three months of 2013, with the creation of 5,600 full-time and 1,600 part-time positions. This helped bring down the seasonally-adjusted unemployment rate to an average 3.5 per cent from 4.3 per cent in the fourth quarter of 2012.

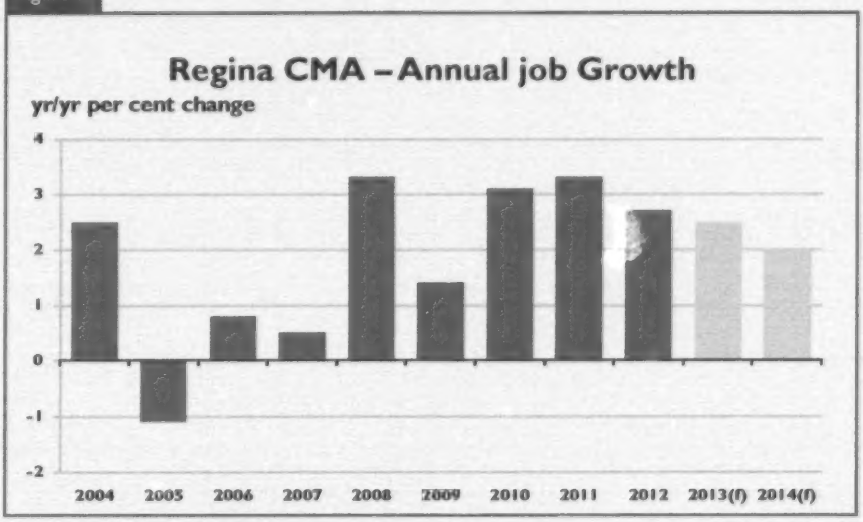
Continued demand for commodities and improving prices over the forecast period will bolster local production and strengthen economic activity across the region. At the same time, Regina will continue to benefit from the heightened pace of both public and private sector infrastructure spending, creating jobs in the construction, service and goods sectors.

With a labour force growing at a slower pace than employment, Regina will continue to experience tight labour market conditions this year and next. In 2014, average employment is projected to grow by two per cent, while the unemployment rate is expected to average four per cent, among the lowest in major Canadian centers.

Net migration expected to moderate, yet remain elevated through 2014

Net migration in Regina climbed to the highest level on record last year. Total net migration reached 5,826 people in 2012, up from 3,379 in 2011. Continued strong job growth and an unemployment rate among the lowest

Figure 6



Source: Statistics Canada, CMHC Forecast (f)

in the country supported last year's strong performance. At the same time, the Saskatchewan Immigrant Nominee Program (SINP) contributed to a heightened flow of international migrants. Moving forward, Regina will remain an attractive destination for migrants from other centres. However, a moderation in the pace of job growth and improving economies outside of Saskatchewan will reduce its magnetic draw for migrants. As a result, net migration to the Regina CMA is forecast to moderate to 3,660 people in 2013, before rising slightly to 3,750 next year.

MORTGAGE RATE OVERVIEW

Mortgage rates to see modest and gradual increases, but will remain low

In line with the consensus among private-sector forecasters, increases in the Target Overnight Rate by the Bank of Canada are not anticipated before mid-2014, later than anticipated at the time of the 2013 First Quarter Housing Market Outlook. This reflects the downward revisions in GDP forecasts since the publication of the First Quarter Housing Market Outlook, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Mortgage rates are not expected to increase until mid 2014. The anticipated small and steady increases in mortgage rates will lead to somewhat higher mortgage rates by the end of 2014. However, these rates will remain low, by historical standards, over the forecast horizon.

Forecast Summary Regina CMA Spring 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	708	958	1,289	1,100	-14.7	1,125	2.3
Multiples	639	736	1,804	1,300	-27.9	1,325	1.9
Starts - Total	1,347	1,694	3,093	2,400	-22.4	2,450	2.1
Average Price ($):							
Single-Detached	438,979	457,947	462,023	470,000	1.7	480,000	2.1
Median Price ($):							
Single-Detached	409,016	417,651	426,494	442,000	1.3	450,000	1.8
New Housing Price Index (% chg.)	5.2	5.0	4.4	3.1	-	3.0	-
Resale Market							
MLS® Sales	3,581	3,899	3,952	3,600	-8.9	3,700	2.8
MLS® New Listings	6,146	6,301	6,358	6,600	3.8	6,300	-4.5
MLS® Average Price ($)	258,023	277,473	301,145	312,000	3.6	320,000	2.6
Rental Market							
October Vacancy Rate (%)	1.0	0.6	1.0	1.2	-	1.3	-
Two-bedroom Average Rent (October) ($)	881	932	979	1,020	-	1,050	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	118,900	122,800	126,100	129,252	2.5	131,837	2.0
Employment Growth (%)	3.1	3.3	2.7	2.5	-	2.0	-
Unemployment rate (%)	4.7	4.7	4.1	4.0	-	4.0	-
Net Migration [1]	3,079	3,379	5,826	3,660	-37.2	3,750	2.5

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of April 26, 2013

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